

Message Text

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PAGE 01 MANILA 01021 280918Z

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 OMB-01 NEA-11 IO-14 CEA-02

STR-08 DRC-01 /187 W

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FM AMEMBASSY MANILA

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USADB

TREASURY FOR FINKEL

E.O. 11652: ADS, DECLAS 12/31/74

TAGS: EAID, EFIN

SUBJ: LIQUIDITY POLICY REVIEW

SUMMARY: ADB MANAGEMENT IS REQUESTING BOARD APPROVAL OF (1) RETAINING BANK'S PRESENT LIQUIDITY POLICY FOR ANOTHER YEAR, (2) BANK'S 1974 ESTIMATED BORROWING REQUIREMENTS OF \$115 MILLION, AND (3) PROVIDING PRESIDENT WITH AUTHORITY TO MAKE BORROWING ARRANGEMENTS UP TO \$30 MILLION. BOARD DISCUSSIONS SCHEDULED FOR FEB 7. USADB RECOMMENDS APPROVAL.

1. ADB DOC R8-74 ENTITLED "LIQUIDITY POLICY REVIEW" POUCHED JAN 23.

2. PRESENT LIQUIDITY POLICY, ADOPTED IN JUNE 1972, IS TO MAINTAIN LIQUID ASSETS OF BANK AT A LEVEL NOT LESS THAN TWO
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PAGE 02 MANILA 01021 280918Z

THIRDS OF NEXT THREE YEARS PROJECTED LOAN DISBURSEMENTS.

LIQUID ASSETS AT YEAR-END 1973 ARE NOW ESTIMATED TO BE \$424.8 MILLION EQUIVALENT TO 10 PERCENT ABOVE MINIMUM LEVEL OF LIQUIDITY REQUIRED UNDER EXISTING POLICY.

3. ACTUAL 1973 LAON DISBURSEMENTS OF \$120.3 MILLION WERE CONSIDERABLY LARGER THAN \$95.8 MILLION BUDGET FOR THE YEAR. BOARD PAPER PROJECTS 1974 DISBURSEMENTS AT \$144.7. BASED ON THESE FIGURES BANK WILL REQUIRE IN 1974 ADDITIONAL FUNDS OF \$115 MILLION JUST TO MAINTAIN MINIMUM LIQUIDITY LEVELGN

4. IN RAISING REQUIRED FUNDS, BORROWING WILL BE PREFERRED AS LONG AS AVERAGE COST OF BORROWED FUNDS IS SUBSTANTIALLY CLOSE TO BANK'S CURRENT LENDING RATE. CONSEQUENTLY, BANK IS EXPECTED TO OBTAIN AS MUCH OF PROJECTED \$115 MILLION AS POSSIBLE FROM COMBINATION OF FOLLOWING SOURCES: (1) CONTROLLED MARKETS OF SWITZERLAND AND LIXEMBOURG WHERE ADB IS ALREADY ON WAITING LIST, (2) BY ISSUING SHORT TO MEDIUM TERM NOTES TO CENTRAL BANKS OF MEMBER COUNTRIES, (3) MEDIUM TERM BORROWINGS FROM OTHER GOVT AGENCIES OF MEMBER COUNTRIES SUCH AS EX-IM BANK OF JAPAN, AND (4) POSSIBLY FROM OIL PRODUCING COUNTRIES IN MIDDLE EAST. ANY SHORTFALL RESULTINGFROMADVERSE MARKET AND OTHER NEGATIVE CONDITIONS WOULD HAVE TO BE MADE UP BY ENCASHMENT OF DEMAND NOTES OF MEMBER COUNTRIES.BANK STAFF INFORMS THAT TOTAL DEMAND NOTES ENCASHABLE IN 1974 AMOUNT TO \$162.9 MILLION (INCLUDING ANTICIPATED U.S. PARTICIPATION IN FIRST CAPITAL REPLENSSHMENT BY END 1974).

5. IN ORDER TO ENABLE BANK TO ACT IMMEDIATELY ON FAVORABLE BORROWING OPPORTUNITIES, BOARD IS ASKED TO AUTHORIZE PRESIDENT TO INITIATE AND SUBSTANTIALLY CONCLUDE BORROWING ARRANGEMENTS UP TO A LIMIT OF \$30 MILLION. THIS NEGOTIATING AUTHORITY, TO BE EFFECTIVE FOR 1974 OHPY, WOULD BE SUBJECT TO CONDITION THAT AVERAGE COST OF SUCH BORROWINGS IS KEPT SUBSTANTIALLY CLOSE TO ANK'S LENDING RATE AND THAT PRESIDENT MAY NOT BE ENGAGED IN BORROWING ARRANGEMENTS EXCEEDING \$30 MILLIOJFAT ANY ONE TIME.

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PAGE 03 MANILA 01021 280918Z

6. USADB CONCURS WITH MANAGEMENT VIEW THAT PRESENT LIQUIDITY POLICY SHOULD BE RETAINED SUBJECT TO FURTHER REVIEW NEXT YEAR. AS BANK IS CONTINUING TO EXPERIENCE ACCELERATED LOAN DISBURSEMENTS, AND PARTICULARLY GIVEN CURRENT ADVERSE XUARKET CONDITIONS FH LONG-TERM BORROWING THERE SEEMS EVERY REASON FOR BANK TO MAINTAIN MORE THAN ADEQUATE LIQUIDITY POSITION. PRQWJECTED FUNDS REQUIREMENT OF \$115 MILLION SEEMS REASONABLE BASED ON CURRENT LIQUID ASSET

POSITION AND DISBURSEMENT ESTIMATES FOR 1974. WHILE
DESIRABLE TO HAVE BANK BORRHA MAXIMUM POSSIBLE TO MEET
1974 REQUIREMENTS, MEMBER COUNTRIES SHOULD ANTICIPATE
POSSIBILITY OF SOME PORTION OF DEMAND NOTES BEING CASHED
IN 1974. USADB FORESEES NO PARTICULAR PROBLEM WITH
\$30 MILLION BORROWING AUTHORITY FOR PRESIDENT SINCE IT
WILL NOT PERMIT MANAGEMENT TO COMMIT BANK UNTIL BOARD
HAS APPROVED SPECIFIC AMOUNTS, TERMS, RATES AND OTHER
RELEVANT CONDITIONS. SULLIVAN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BANK LAW, LIQUIDITY (MONETARY)
Control Number: n/a
Copy: SINGLE
Draft Date: 28 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MANILA01021
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740112/aaaaaksa.tel
Line Count: 124
Locator: TEXT ON-LINE
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 07 AUG 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07-Aug-2002 by martinml>; APPROVED <04-Sep-2002 by MorefiRH>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: LIQUIDITY POLICY REVIEW SUMMARY: ADB MANAGEMENT IS REQUESTING BOARD APPROVAL
TAGS: EAID, EFIN, RP, ADB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005